

Message Text

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TAGS: EFIN, EPAP, ET

SUBJ: COFFEE SURTAX REVISED UPWARD

SUMMARY: NEW EPMG SURTAX ON COFFEE WILL INCREASE REVENUE FROM THIS SOURCE FROM APPROX US\$35 MILLION TO AROUND US\$127 MILLION FOR THIS FISCAL YEAR. COFFEE GROWERS WILL BEAR THE ENTIRE BURDEN OF THIS INCREASE BUT FARM GATE-PRICE WILL STILL BE AS HIGH AS LAST YEAR AND WELL ABOVE HISTORIC LEVELS WHEN GROWERS ALSO HAD TO SHARE EARNINGS WITH LANDLORDS. END SUMMARY.

1. ON NOV 24 EPMG ISSUED LEGAL NOTICE NO 46 DTD NOV 18, 1976 REVISING COFFEE SURTAX SHARPLY UPWARD. THE NEW TAX RATE IS NOW AS FOLLOWS:

"THERE SHALL BE A CORRESPONDING INCREASE IN SURTAX FOR EVERY ON US CENT INCREASE:

A. FROM 30 UP TO 50 US CENTS PER POUND - 1.00 BIR PER 100 KG.

B. ABOVE 50 UP TO 100 US CENTS PER POUND - 2.00 BIRR PER 100 KG.

C. ABOVE 100 US CENTS PER POUCH - 3.00 BIRR PER 100 KG."

UNDER THE OLD REGULATION ONLY PARA 1A APPLIED. ALL OTHER ASPECTS OF THE SURTAX, SUCH AS BASING IT ON THE SANTOS 4 PRICE, FOB NEW

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YORK, REMAIN AS THEY WERE.

2. AS IS APPARENT, THE REVISION WILL GREATLY INCREASE REVENUE RETURNS. FOR EXAMPLE, UNDER THE OLD SYSTEM, IF THE SANTOS 4 PRICE IS US\$1.75/LB., (WHICH IS AROUND 10 US CENTS LESS THAN THE CURRENT PRICE FOR SANTOS 4) THE YIELD PER TON WOULD HAVE BEEN 1,450.00 BIR (US\$ 707.00 WHILE UNDER THE NEW RATE THE YIELD WILL BE 3,450.00 BIRR (US\$ 1,683.00). THE 1977 BUDGET ESTIMATED THE RETURN FROM THE COFFEE SURTAX TO BE 72 MILLION BIRR (APPROX US\$ 35 MILLION). IF IT IS ASSUMED THAT THE SANTOS 4 PRICE AVERAGES US\$ 1.75/LB DURING THE ETHIOPIAN FISCAL YEAR AND IF 75,000 TONS OF COFFEE ARE EXPORTED DURING THIS PERIOD (THE CURRENT ESTIMATE IN THE COFFEE TRADE), THEN THE RETURN FROM THIS TAX WILL AMOUNT TO ROUGHLY 260 MILLION BIRR (APPROX US\$ 127 MILLION) OR AN INCREASE OF 188 MILLION BIRR (US\$ 92 MILLION). THE SIGNIFICANCE OF THIS GAIN CAN BE SEEN IF IT IS COMPARED TO THE OVERALL DOMESTIC REVENUE YIELD WHICH WAS ESTIMATED TO BE 845 MILLION BIRR (APPROX. US\$ 412 MILLION) FOR THE ETHIOPIAN FISCAL YEAR. ANOTHER WAY OF MEASURING ITS IMPORTANCE IS THAT IN THE BUDGET 340 MILLION BIRR (APPROX. US\$ 166 MILLION) IN DEFICIT FINANCE WAS PROJECTED FOR THE FY; ASSUMING THE REST OF THE BUDGET ESTIMATES PROVE CORRECT THE DEFICIT WILL BE MORE THAN HALVED BY THE INCREASE FROM THE COFFEE SURTAX.

3. AS ETHIOPIA IS A PRICE TAKER IN THE INTERNATIONAL COFFEE MARKET AND THE OTHER ELEMENTS WHICH MAKE UP THE COFFEE PRICE HAVE NOT BEEN AFFECTED, THE BURDEN OF THIS INCREASE IS BORNE ENTIRELY BY THE COFFEE GROWERS. THE IMPACT ON THE GROWERS CAN BE SEEN FROM THE FOLLOWING EXAMPLE. UNDER THE OLD SURTAX GROWERS WOULD HAVE OBTAINED 98.00 BIRR/17 KG (THE NORMAL UNIT OF TRADE) AT THE ADDIS ABABA COFFEE AUCTION IF THE FOB DJIBOUTI PRICE WERE US\$ 1.75/LB. UNDER THE NEW SURTAX THAT PRICE WILL BE 65.00 BIR/17KG. DURING MOST OF THE PAST COFFEE YEAR, GROWERS RECEIVED FROM 40.00 BIRR (AT THE BEGINNING OF THE SEASON) TO 65.00 BIRR (AT THE CLOSE OF THE SEASON), I.E., AUGUST/SEPTEMBER) PER 17 KG. IN PREVIOUS YEARS, BEFORE THE BRAZILIAN FREEZE IN JULY 1975, GROWERS RECEIVED FROM 20.00 TO 30.00 BIRR/17 KG. IN ADDITION, BEFORE THE 1975 LAND REFORM GROWERS HAD TO SHARE THE CROP WITH THEIR LANDLORDS. THEREFORE, ALTHOUGH THE GROWERS WILL OBVIOUSLY RECEIVE LESS THAN THEY WOULD HAVE RECEIVED HAD THE SURTAX NOT BEEN INCREASED, THEY ARE STILL OBTAINING A PRICE FAR HIGHER THAN BEFORE THE SHARP RISE IN INTERNATIONAL PRICES.

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CONSEQUENTLY, WE DO NOT ANTICIPATE A SHARP REACTION FROM COFFEE GROWERS AS A RESULT OF THE NEW SURTAX.

4. COMMENT: REVISION OF THE SURTAX WAS CERTAINLY IN ORDER GIVEN THE SKYROCKETING PRICE OF COFFEE OVER THE PAST YEAR OR SO. THE GOVT SHOULD OBTAIN A LARGE PORTION OF THESE WINDFALL GAINS TO HELP FINANCE ITS DEVELOPMENT PROGRAM. WE ESTIMATE THAT AT THE TOP RATE, FOR EVERY US CENT INCREASE IN THE WORLD PRICES 2/3 WILL GO TO THE

GOVT AND 1/3 TO THE GROWER. THIS IS CEARLY A REVENUE
MAXIMIZING STRATEGY AND GIVEN THE AMPLE FOREIGN EXCHANGE RESERVES
CURRENTLY AVAILABLE TO ETHIOPIA IS PROBABLY THE CORRECT POLICY TO
FOLLOW. IT WILL ALSO SERVE TO HOLD DOWN THE DOMESTIC PRICE OF
COFFEE BUT THIS COULD ENCOURAGE INCREASED SMUGGLING, ESPECIALLY
THROUGH KENYA. WOULD APPRECIATE EMBASSY NAIROBI COMMENTS.
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